

## Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 EA-10 ISO-00 AID-05 CIAE-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-01 PRS-01 L-03 H-01 EURE-00  
AGRE-00 IO-13 /119 W  
-----101508 291811Z /45

P R 291620Z AUG 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC PRIORITY 2838  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY CARACAS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY MADRID  
AMCONSUL OPORTO  
AMEMBASSY OSLO  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL PONTA DELGADA  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMEMBASSY VIENNA  
USDOC WASHDC

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DEPT. PASS TREASURY FOR SYVRUD  
PASS EXIMBANK  
PASS FEDERAL RESERVE BANK  
BRUSSELS FOR EC  
PARIS ALSO FOR OECD  
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E.O. 11652: N/A  
TAGS: EFIN, ECON, PO  
SUBJ: NEW AUSTERITY MEASURES: DETAILS BEGIN TO EMERGE

REF: (A) LISBON 6641, (B) LISBON 6636, (C) LISBON 6628

BEGIN UNCLASSIFIED

BEGIN SUMMARY: BANK OF PORTUGAL HAS ISSUED FIRST OF  
NUMEROUS ANTICIPATED GOVERNMENT DECREES AND REGULATIONS  
DETAILING IMPLEMENTATION OF PACKAGE 2. INITIAL DECREE  
ESTABLISHES AND EXPLAINS GOP REATIONALE FOR NEW  
INTEREST RATE SCHEDULE. END SUMMARY.

1. FINMIN MEDINA CARREIRA AND PLANNING MINISTER SOUSA  
GOMES WENT ON TELEVISION AUGUST 27 TO DEFEND NEW ECONOMIC  
MEASURES. SOUSA GOMES DELIVERED UPBEAT REVIEW OF IMPROVE-  
MENTS IN ECONOMIC PERFORMANCE SO FAR THIS YEAR, CLAIMING A  
BETTER THAN EXPECTED RECOVERY IN INVESTMENT AND OUTPUT.  
REFERRING TO VAGUE STATEMENT IN COUNCIL OF MINISTERS COMMUNI-  
QUE OF AUGUST 25 PROMISING AN EASING OF RENT CONTROLS,  
PLANNING MINISTER SAID INVESTORS MUST RECEIVE AN ADEQUATE  
RETURN ON THEIR INVESTMENT. FORTHCOMING DECREE, HE PROMISED,  
WOULD BE A STEP IN THAT DIRECTION, BUT WOULD ALSO ASSURE  
THAT LOW INCOME SECTORS ARE PROTECTED. MEDINA CARREIRA  
SAID INTEREST RATES ON CONSUMER CREDIT WILL RISE FROM  
PRESENT 14 PERCENT TO 26 PERCENT TO DISCOURAGE IMPORTS OF  
CONSUMER DURABLES; OTHER INTEREST RATES WILL BE GEARED  
TOWARD ENCOURAGING LABOR-INTENSIVE AND IMPORT-SUBSTITUTING  
DOMESTIC INVESTMENT. FINANCE MINISTER UNDERLINED, IN VERY  
DIRECT TERMS, THAT PORTUGAL HAS BEEN LIVING BEYOND ITS MEANS  
FOR PAST THREE YEARS AT SUFFERANCE OF OTHER NATIONS. HOW-  
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EVER, SATURATION POINT OF FRIENDS' FOREBEARANCE HAS BEEN  
REACHED, AND LARGE NEW CREDITS ARE UNLIKELY. AS ANY HOUSE-  
HOLD WHICH CONTINUALLY SPENDS MORE THAN IT EARNS, HE CON-  
TINUED, PORTUGAL WILL HAVE TO CURTAIL ITS CONSUMPTION AND  
LIVE WITHIN ITS MEANS IF IT IS NOT TO LOSE POLITICAL AND  
ECONOMIC INDEPENDENCE.

2. ON AUGUST 26 BANK OF PORTUGAL ISSUED NEW INTEREST RATE  
SCHEDULE. BANK'S ANNOUNCEMENT IS FIRST OF MANY  
DESIGNED TO IMPLEMENT NEW MEASURES. BANK ANNOUNCED THAT  
DISCOUNT RATE IS RAISED FROM 8 TO 13 PERCENT. INTEREST  
PAID ON DEMAND DEPOSITS REMAINS UNCHANGED AT ONE TO FOUR PERCENT;  
RATES ON TIME DEPOSITS ARE INCREASED FROM 5 TO 6 PERCENT  
FOR 30-90 DAY DEPOSITS, AND TO MAXIMUM OF 17 PERCENT (13  
PERCENT PREVIOUSLY) FOR DEPOSITS OVER TWO YEARS. INTEREST  
FOR COMMERCIAL BANK LOANS WILL NOW RANGE FROM 14.75  
PERCENT (10.25 PERCENT) FOR UNDER 90 DAYS TO 18.75 PERCENT  
(14.75) PERCENT) FOR OVER SEVEN YEARS. RATES ON AGRICULTURAL  
AND EXPORT CREDIT RISES TO 5 PERCENT (3 PERCENT), WITH MORE  
FAVORABLE RATES AVAILABLE (BUT NOT SPECIFIED) FOR EQUIPMENT  
EXPORTS. RATES ARE REDUCED ONE PERCENTAGE POINT FOR CREDIT  
ON LABOR-INTENSIVE INVESTMENTS WITH SUBSTANTIAL DOMESTIC

VALUE ADDED, WITH RATES ON ALL OTHER INVESTMENT IN-  
CREASING. RATES ON HOUSING MORTGAGES RISE BY 2.5 OR 3.5  
PERCENT, DEPENDING UPON TYPE OF HOUSE. COMPLETE INTEREST  
TABLES FOLLOW BY AIRGRAM.  
END UNCLASSIFIED.

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SS-15 STR-04 CEA-01 PA-01 PRS-01 L-03 H-01  
AGRE-00 IO-13 /119 W  
-----101632 291812Z /45

P R 291620Z AUG 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC PRIORITY 2839  
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3. COMMENT: FULL MEANING OF THE MEASURES WILL NOT BE KNOWN UNTIL  
MORE OF THE IMPLEMENTING DECREES ARE PUBLISHED. NEW  
INTEREST RATE SCHEDULE, FOR EXAMPLE, IS FAR MORE COMPLEX

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THAN PM SOARES OR COUNCIL OF MINISTERS COMMUNIQUE HAD INDICATED. INCREASES IN RATE FOR INVESTMENTS, AGRICULTURAL AND EXPORT CREDITS ARE, IN GENERAL, SMALLER THAN SOARES HAD SUGGESTED; INCREASE IN RATES FOR CONSUMER CREDIT IS FAR HIGHER. GOP CLEARLY IS SEEKING TO MUTE POLITICAL OPPOSITION TO ITS MEASURES, MINIMIZE NEGATIVE IMPACT ON INVESTMENT, AND TO REDUCE CONSUMER GOODS IMPORTS. WHILE IT MAY BE PARTIALLY SUCCESSFUL IN ACHIEVING THESE OBJECTIVES, IT WILL SIMULTANEOUSLY CONTINUE TO BEAR A HIGH COST IN CAPITAL FLIGHT.

4. AMBASSADOR AND ECON COUNSELOR HAVE, IN SEPARATE CONVERSATIONS, INFORMED GOP OFFICIALS OF OUR DISAPPOINTMENT WITH LATEST ECONOMIC MEASURES, BUT HAVE PURPOSELY NOT PRESSED THIS POINT. PRESUMABLY THIS BURDEN WILL BE BORNE BY IMF. IF WASHINGTON AGENCIES WISH US TO PRESS OUR FEELINGS IN A MORE DETAILED AND FORCEFUL MANNER, WOULD APPRECIATE FURTHER GUIDANCE ON WASHINGTON AND IMF VIEWS OF RECENT GOP MEASURES.

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## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**Office:** ACTION EUR  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Reference:** 77 LISBON 6641, 77 LISBON 6636, 77 LISBON 6628  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEW AUSTERITY MEASURES: DETAILS BEGIN TO EMERGE  
**TAGS:** EFIN, ECON, PO  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/0bfe5751-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
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